# Health Savings Account
# Questions and Answers

## Health Savings Account Basics

1. *What is a Health Savings Account (HSA)?*
   An HSA is a trust or custodial account established exclusively to receive tax-favored contributions on behalf of eligible individuals enrolled in high-deductible health plans (HDHPs). (Note: TVA's Consumer-Directed Health Plan (CDHP) will meet the requirements of a HDHP beginning January 1, 2009).

   Amounts contributed to an HSA accumulate on a tax-free basis and withdrawals are not subject to tax if they are used to pay for eligible medical expenses for you and your dependents. Contributions made in one year, and not used to pay expenses in that year, may be used to pay eligible medical expenses in later years.

   An HSA is fully vested at all times and portable, meaning that it can move with you as your circumstances change. Once you reach age 65, you may use the HSA funds to pay for most retiree medical insurance or other medical expenses on a tax-free basis, or may take a distribution for any other reason and pay only ordinary income tax.

2. *Who can have an HSA (i.e., make or receive HSA contributions)?*
   You must meet the following requirements:
   - Must be covered by a qualified HDHP. This means you must be enrolled in the CDHP medical option to be eligible for the HSA.
   - Cannot be enrolled in Medicare
   - Cannot be claimed as a dependent on someone else's tax return
   - Cannot be covered by another health plan that is not HSA-qualified (with some exceptions, including vision coverage, dental coverage, accident and disability coverage, and employee assistance programs)

3. *One of the eligibility requirements to make or receive contributions to an HSA is the individual can not be covered under any other health plan that is not HSA-qualified. Please provide examples.*

   The following provides some scenarios of this eligibility provision.

| **Scenario (Assumes all other eligibility requirements are met)** | **Eligible to make or receive contributions to an HSA** |
|---|---|
| You are enrolled in the CDHP plan only. | Yes |
| You are enrolled in the 80 percent or Copayment PPO plan. | No |
| You are enrolled in the CDHP plan and Medicare. | No |
| You are enrolled in the CDHP plan and your spouse is also enrolled in a high-deductible health plan through his/her employer. | Yes |

| | |
|---|---|
| You have family CDHP coverage and your spouse has non-high deductible health plan coverage* for him/her and the children (i.e., you are not covered under your spouse's plan). | Yes |
| You have family CDHP coverage and your spouse has non-high deductible health plan coverage* and a general purpose health care flexible spending account (FSA) or health reimbursement account (HRA). This is regardless of whether or not you are covered under your spouse's medical plan. | No |
| You have family CDHP coverage and your spouse has family non-high deductible health plan coverage* which covers you. | No |

*Non-high deductible health plan coverage is a health plan that does not meet the IRS requirements for a high deductible health plan, such as a traditional copay plan, TRICARE, etc.)

There are also certain exceptions that allow an individual to have 'permitted insurance' and still meet this eligibility requirement. Permitted insurance is insurance under which substantially all of the coverage provided relates to liabilities incurred under workers' compensation laws, tort liabilities, liabilities relating to ownership or use of property, insurance for a specified disease or illness and insurance that pays a fixed amount per day of hospitalization. Also, an individual does not fail to be eligible for an HSA merely because they have coverage for accidents, disability, dental care, vision care or long-term care.

Refer to Section 223(c)(1) of the Internal Revenue Code for eligibility requirement details.

4. *If my spouse and I both have HDHP medical coverage, how much can each of us contribute to an HSA?*
   If each spouse has separate coverage under a self-only HDHP, each spouse may contribute the maximum annual contribution ($3,000 in 2009) into an HSA in his/her own name. If both spouses are covered under a family HDHP, they may contribute a total of $5,950 to an HSA in 2009. If both spouses are over the age of 55, and both have HSAs in their own name, both spouses may also make the full "catch-up" contribution ($1,000 in 2009).

5. *If I am covered under the CDHP as well as my spouse's plan, am I eligible for an HSA?*
   Only if your spouse's plan is an HSA-qualified HDHP. In order to be eligible for an HSA, you cannot also be covered under a spouse's plan that is not HSA-qualified.

6. *If I meet the HSA eligibility requirements under Section 223(c)(1) of the Internal Revenue Code and am also eligible for medical benefits through the Department of Veterans Affairs (VA), may I contribute to an HSA?*
   An otherwise eligible individual who is eligible to receive VA medical benefits, but who has not actually received such benefits during the preceding three months, is an eligible individual under Section 223(c)(1). An individual is not eligible to make HSA contributions for any month, however, if the individual has received medical benefits from the VA at any time during the previous three months.

7. *What are the benefits of an HSA?*

- Portability – An HSA is owned by you. HSA funds belong to you for life – even if you switch jobs, change insurance plans, or retire.
- Savings – You can save the money in your HSA for future medical expenses and grow your account through investment earnings. Unused money rolls over year-to-year, earning interest tax-free. There is not "use it or lose it" rule.
- Tax Savings – Triple-tax savings: tax-deductible or pre-tax contributions; tax-free earnings on investments; and tax-free withdrawals for qualified medical expenses.
- Flexibility – You can use the money in your HSA to pay for current medical expenses, including expenses that your medical plan may not cover. For example, you can withdraw money tax-free to pay for deductibles, coinsurance, contact lenses, prescription medicines, certain over-the-counter drugs, vision care, and dental treatment. Or save the money for future needs, such as medical expenses after retirement (before Medicare), out-of-pocket expenses when covered by Medicare, long-term care expenses, etc.
- Choice and Control – You make all the decisions about:
    - Whether or not you want to make contributions to the HSA (up to the maximum allowed annual contribution)
    - Whether to save the money for future expenses or pay current medical expenses
    - Whether to invest any of the money and which investments to select
    - Which trustee will hold the account

  You always have access to your HSA funds with a debit card or check.

8. *Who is the trustee or custodian of my HSA?*
   An HSA takes the form of a tax-exempt trust or custodial account. An HSA trustee or custodian holds your balances for you, receives and records contributions and processes distributions.

   Your HSA will be serviced by First Horizon Msaver, a subsidiary of First Tennessee Bank National Association. TVA contributions to your HSA will be made to First Horizon. If you wish, you have the option to move your funds to another trustee of your choice.

9. *How do I open my HSA?*
   **Employees:** Within approximately two weeks after the close of Open Enrollment you will receive an enrollment link via e-mail from First Horizon Msaver. (Note: Your TVA e-mail address will be used unless you enter another e-mail address during online enrollment. Information will be mailed to those without an e-mail address.) Once you click on this link, you will be prompted to log in using your social security number. For your convenience, much of the information will be pre-filled with data obtained during your enrollment. Please verify that all information is correct (including your *legal* name and *physical* address) and complete the remaining required fields. To get started, you should have a primary identification on hand such as your driver's license, passport, state issued picture ID, or U.S. military ID. Once you have completed the online enrollment process, your account will be held for opening until the last week of December.

   Once your account is open, you will receive a Welcome Kit containing important information on how to access your account, make additional deposits, and pay for qualified medical expenses. For security purposes, your First Horizon HSA VISA® Debit Card will arrive in a separate package within five to ten business days after you receive your Welcome Kit.

**Retirees:** There are two options available for you to enroll in the HSA.

1. You can open your HSA by going to www.firsthorizonhsa.com/tvaretiree and completing the Online Enrollment process.
2. Included with your medical plan election packet you will find a First Horizon Msaver HSA Enrollment Form to complete. Once you have completed this form, you can mail it to the address on the bottom of the front page of the form, or fax it to First Horizon Msaver at 913-317-2015.

Please note that no matter how you choose to enroll, your account will be held for opening until the last week of December. Once your account is open, you will receive a Welcome Kit containing important information on how to access your account, make additional deposits, and pay for qualified medical expenses. For security purposes, your First Horizon HSA VISA® Debit Card will arrive in a separate package within five to ten business days after you receive your Welcome Kit.

**Contributing to your Health Savings Account**

1. *How can I contribute to my HSA?*

   **Employees:** The easiest way is through payroll deductions. Beginning December 15, 2008, you can set up payroll deductions for your pre-tax contribution to your HSA through InsideNet:
   - Access InsideNet. Click Self Service Solutions.
   - Enter your Employee ID and PIN.
   - Click Money

   For your contributions to start on your first paycheck in January, you must set up your deductions by December 22, 2008. However, you can set up or change your contributions at any time during the year.

   If you would like to make a post-tax contribution you can mail contributions using a deposit slip from your HSA checkbook. Or, you can automatically transfer monthly contributions from a personal checking or savings account.

   If you discontinue your enrollment in the CDHP in the future, you can continue to use the funds in your HSA for qualified medical expenses but can no longer contribute to the account.

   **Retirees:** You can contribute to your HSA by:
   - Mailing contributions using deposit slips from your HSA checkbook or
   - Automatically transferring monthly contributions from a personal checking or savings account. Funds are transferred on a specific day each month.

   If you discontinue your enrollment in the CDHP in the future, you can continue to use the funds in your HSA for qualified medical expenses but can no longer contribute to the account.

2. *How much can I contribute to my HSA?*

TVA will make contributions of $500/individual or $1,000/family after you open your HSA account. These are the same as the current HRA annual amounts. You decide whether or not you want to make additional contributions to your HSA.

The maximum HSA contribution from all sources (which includes TVA's contribution) for 2009 is $3,000/individual and $5,950/family. If you are age 55 or older you can also make additional "catch-up" contributions. The maximum annual catch-up contribution is $1,000 for 2009. These amounts are mandated by the IRS.

3. *Both my spouse and I are over the age of 55, can we both contribute the catch-up contribution in my HSA?*
   As long as you are both only covered by the CDHP, you are both able to contribute. However, if your spouse wishes to make a catch-up contribution, he/she would need to do so in an account established in his/her own name (i.e., your spouse may not put his/her catch-up contribution into your account).

4. *How much should I contribute to my HSA?*
   Since HSA contributions reduce your taxable income, and since the funds roll over from year-to-year, you can benefit from making the full annual contribution to your HSA. However, you are in control of your HSA contributions, so you can choose how much to contribute (up to the maximum allowed annual contribution) as your circumstances dictate.

5. *Will First Horizon Msaver notify me if I exceed my allowable contribution amount?*
   No. This is your account and you have certain responsibilities under the law. It is solely your responsibility to keep track of the contributions deposited into your account. Excess contributions are subject to an excise tax.

6. *How do I correct over contributing to my HSA?*
   You have until the time you file your tax return or April 15, whichever comes first, to remove excess contributions from your account. If the excess contribution is not removed from your account, you will be subject to a 6% penalty and income tax on that amount. You would need to send a letter to First Horizon Msaver indicating that you over contributed to your account.

**Using your Health Savings Account**

1. *How can I use my HSA?*
   It's easy to use the money in your HSA. Once your account is open you will be sent a First Tennessee HSA VISA® debit card. Checks are also available. You just pay for qualified expenses directly using one of these methods. Be sure to keep your receipts.

   You can use your HSA money to pay for any "qualified medical expense" permitted under federal tax law that you incur after your HSA is established. You can use the money to pay for medical expenses for yourself, spouse, and dependent children. You can pay for expenses of your spouse and dependent children even if they are not covered by the CDHP.

Any HSA money used for purposes other than to pay for "qualified medical expenses" is taxable as income and subject to an additional 10% tax penalty. After you turn age 65, the 10% additional tax penalty no longer applies.

2. *What is a qualified medical expense?*
   In order to be considered qualified, the expense has to be primarily for the prevention or alleviation of a physical or mental defect or illness. This would include office visits, hospitalization, or prescription drugs.

   Qualified medical expenses are defined in section 213(d) of the Internal Revenue Code and a list of qualified expenses is available on the IRS website, www.irs.gov, Publication 502, "Medical and Dental Expenses."

   The following is a partial list of items that are considered qualified medical expenses for HSA reimbursement. This list is not complete and should serve only as a reference.

| | |
|---|---|
| Alcoholism treatment | Ambulance |
| Artificial limb | Artificial teeth |
| Chiropractors | Contact lenses |
| Crutches | Dental treatment |
| Dermatologist | Drug addiction treatment (inpatient) |
| Eyeglasses | Guide dog |
| Gynecologist | Hearing aids |
| Hospital services | Laboratory fees |
| Lead-base paint removal | Life-care fees |
| Lodging for outpatient treatment | Nursing care |
| Obstetrician | Operating room costs |
| Ophthalmologist | Optician |
| Organ transplant (including donor's expenses) | Orthopedic shoes |
| Orthopedist | Osteopath |
| Oxygen and equipment | Pediatrician |
| Physician | Podiatrist |
| Post-natal treatments | Prenatal care |
| Prescription medicines | Psychiatrist |
| Psychologist | Radium treatment |
| Specialists | Spinal tests |
| Splints | Sterilization |
| Surgeon | Phone/TV (hearing impaired) |
| Therapy | Vaccines |
| Vasectomy | Vision |
| Vitamins (prescribed) | Wheelchair |
| X-rays | |

3. *Do my HSA funds earn interest?*
   The money in your HSA earns tax-free interest daily. The interest rates as of August 28, 2008 are shown below. Rates and yields are subject to change.

| Average Daily Balance | Interest Rate | APY* |
|---|---|---|
| $0 - $499.99 | 0.2497% | .25% |

| | | |
|---|---|---|
| $500 - $3,499.99 | 0.4989% | .50% |
| $3,500 - $4,999.99 | 0.9954% | 1.00% |
| $5,000 - $9,999.99 | 1.5884% | 1.60% |
| $10,000+ | 2.9595% | 3.00% |

*Annual Percentage Yield. When a minimum daily balance is required to earn interest at a higher interest rate (in a "tiered rate" account) and this balance requirement is met, interest is paid at the higher rate on the entire balance in the account that day.

4. *Can I use my HSA to pay for medical expenses incurred before I established my HSA?*
   No. You cannot use funds in your HSA to pay for expenses you incurred before your account was established.

5. *What happens if I accidentally use my HSA funds for a non-qualified expense?*
   If funds in the account are not used for qualified medical expenses, you will need to claim the amount as income on your tax return. That amount will be subject to a 10% penalty if you are under age 65. However, you can avoid taxes and potential penalties if the funds are repaid by April 15th of the year following the year in which you paid for the non-qualified expense(s).

6. *What happens to the money in a HSA after I turn age 65?*
   You can continue to use your account tax-free for out-of-pocket health expenses. When you enroll in Medicare, you can use your account to pay Medicare premiums, deductibles, copays, and coinsurance under any part of Medicare. If you have retiree health benefits through your former employer, you can also use your account to pay for your share of retiree medical insurance premiums. (Please note that the premium for TVA's Supplement to Medicare can not be automatically taken from your HSA. Instead, you would have to reimburse yourself from your HSA for any TVA Supplement to Medicare premiums you pay.) The one expense you cannot use your account for is to purchase a Medicare supplemental insurance or "Medigap" policy.

   Once you turn age 65, you can also use your account to pay for things other than qualified medical expenses. If used for non-qualified expenses, the amount withdrawn will be taxable as income but will not be subject to any other penalties. Individuals under age 65 who use their accounts for non-medical expenses must pay income tax and a 10% penalty on the amount withdrawn.

**Investing your Health Savings Account funds**

1. *Will I have a choice in how funds in my HSA are invested?*
   As account balances grow, First Horizon makes available three ways you can invest your money: Mutual Fund Sweep Program, Self-Directed via Online Trading, and Self-Directed via Trading Desk. You will want to choose the method that best meets your investment style.
   - Mutual Fund Sweep Program - an account holder who prefers a more automatic approach may have their excess funds systematically swept from the interest bearing checking account into mutual fund shares
   - Self-Directed Brokerage via Online Trading – self-manage a portfolio of publicly traded stocks and mutual funds through an online account

- Self-Directed Brokerage via a Trading Desk – self-build and manage a portfolio of publicly traded stocks, bonds or mutual funds through First Tennessee's trading desk at reduced commissions

2. *When can I begin to invest funds from my HSA?*
   Under the Mutual Fund Sweep Program option, when the funds in your HSA exceed $1,000 you may begin to have funds over that amount systematically "swept" to invest in the mutual funds you have chosen.

   If you prefer one of the brokerage account options you will need a total of $3,000 in the HSA. Then you have the option to invest a minimum of $2,000 through a brokerage account with First Tennessee Brokerage, Inc.

3. *Is there a cost for the investment options?*
   There is a $2.50/month administration fee for the Mutual Fund Sweep Program, but no transaction fees. This administration fee is for the systematic sweep of funds from your HSA into the mutual funds you have selected whenever the account balance exceeds $1,000. Please note this $2.50 monthly fee begins the month you apply for the Mutual Fund Sweep Program even if your HSA does not have the minimum balance of $1,000.

   Standard and customary brokerage fees apply to the brokerage accounts. These fees are described in the brokerage account opening information.

4. *How do I open an Investment Account?*
   Contact First Horizon Msaver for an application and additional information on how to open an investment account.

**A Health Savings Account and Your Medical Plan**

1. *What is a High-Deductible Health Plan (HDHP)?*
   A HDHP is a health plan with a deductible amount that qualifies you to open an HSA. To participate in an HSA, you must be enrolled in a HDHP. The Internal Revenue Service (IRS) has released the 2009 requirements for HDHP deductibles, HDHP maximum out-of-pocket spending amounts, and annual HSA contribution limits. The amounts are adjusted annually for inflation.

2. *Will the CDHP option change?*
   TVA's CDHP medical plan option will be changed January 1, 2009 in order to meet IRS mandates for a high-deductible health plan. Specifically, annual deductibles will be increased to $1,150/individual and $2,300/family from the current $1,000/individual and $2,000/family. The IRS indexes the deductible amounts yearly.

3. *If I pay for expenses out of my HSA that are not covered by the CDHP does it count toward the CDHP deductible or out-of-pocket maximum?*
   No. Only charges for services covered by the plan can be applied toward the deductible or out-of-pocket maximum.

**A Health Savings Account and Flexible Spending Account (Note: This section only applies to employees.)**

1. *Can I have an HSA and a health care flexible spending account (FSA)?*
   Yes, if the health care FSA is a *limited purpose* health care FSA used to reimburse such expenses as preventive care, dental, and vision.

2. *What is a limited purpose health care flexible spending account?*
   A limited purpose health care flexible spending account is available if you are enrolled in a HDHP with a HSA. So, TVA's limited purpose spending account is available to you only if you enroll in the CDHP.

3. *How does the limited purpose health care spending account work?*
   It works just like a general purpose health care flexible spending account except:
   - It is for preventive care, dental and vision expenses only.
   - There is no grace period for filing claims. This means, you have until December 31, 2009 to use the money you put in your 2009 Limited Purpose Health Care Spending Account, otherwise you will lose it.

4. *What kinds of expenses does the limited purpose health care spending account cover?*
   Eligible expenses include your out-of-pocket costs for preventive care, dental and vision care services and products. All other expenses normally eligible under a general purpose health care spending account are NOT eligible under a limited purpose spending account.

5. *Is there an issue if I have a 2008 health care flexible spending and have not used all my contributions by December 31, 2008?*
   The IRS states that an employee covered by a general purpose health care flexible spending account cannot make or receive employer contributions to an HSA. Therefore, in order to make contributions or receive the TVA contribution to the HSA at the beginning of 2009 the balance in an employee's health care flexible spending account must be zero on December 31, 2008. If funds remain in the general purpose health care flexible spending account after December 31, 2008, contributions cannot be made to the HSA by either the employee or TVA until April 1, 2009.

6. *I thought I could spend my HSA funds on preventive care, dental and vision expenses. Why would I want a limited purpose health care flexible spending account too?*
   By establishing a limited purpose account, you can save money on taxes by using your spending account money for these types of expenses while saving your HSA funds for other purposes, including saving for the future.

**Discontinuing the Health Reimbursement Account (HRA)**

1. *Will my unused HRA balance be transferred to the HSA?*
   Possibly. In general, a one-time transfer of the balance remaining in an HRA is considered a qualified HSA distribution. The IRS rules governing a transfer of this type state the amount which can be transferred is the value of the HRA on a cash basis at September 21, 2006 or December 31, 2008, whichever is less.

   For example, if the value of an HRA is $200 on September 21, 2006 and $500 on December 31, 2008 only $200 is eligible to be transferred to the HSA. On the other hand, if the balance in an HRA on September 21, 2006 is $500 and $200 on December 31, 2008, once again only the lesser amount of $200 will be eligible for transfer.

2. *What happens if I have a balance on December 31, 2008 which is not eligible for a HSA transfer?*
   If you have a balance on December 31, 2008 which is not eligible to be transferred to the HSA the amount can be credited to a limited purpose HRA. With a limited purpose HRA funds can only be used for preventive care, dental and vision expenses. The limited purpose HRA will be administered by SHPS and claims can be filed for reimbursement.

3. *Will I need to elect the transfer of the eligible HRA to the HSA and if so, must I remain in the CDHP for any time period?*
   Yes. You must make an election to transfer your eligible HRA balance to the HSA. You will be notified if you have a transferable balance and provided the information to make your election. And, if you transfer any eligible balance in the HRA to the HSA you must remain in the CDHP for what the IRS deems a testing period in order for the transfer to receive favorable tax treatment. The testing period as defined by the IRS begins with the first day of the month of the transfer and ends on the last day of the 12th month following such month. **If one does not remain in the CDHP for the testing period the amount transferred to the HSA from the HRA will be taxable and be subject to a 10% tax penalty.**

4. *If I transfer my eligible HRA to the HSA and remain in the CDHP for the testing period what is the tax treatment of the transfer?*
   The transfer is treated as an employer contribution and as a rollover contribution. It is excludable from gross income and wages for employment tax purposes.

5. *Is the transfer of any eligible HRA balance taken into account for purposes of determining the annual contribution limit to the HSA?*
   No

**General Information**

1. *What happens to my HSA if I no longer am enrolled in the CDHP?*
   You can continue to use the funds in your HSA for qualified medical expenses. You may not contribute to the account if you are not enrolled in the CDHP.

2. *Are there any fees associated with my HSA account?*
   **Employees:** You do not have to pay First Horizon's administration fee for your HSA account as long as you are employed at TVA in a position eligible for medical plan coverage.

   However, if you decide to use one on the investment fund options, you will be responsible for any administration or brokerage fees associated with the investment fund.

   **Retirees:** You will have a monthly administration fee of $2.25 deducted from your HSA by First Horizon. Other fees, such as those for investment fund options and account closing, will be highlighted in the Welcome Kit to be received upon enrolling in the HSA.

3. *Who is responsible for tracking expenses paid from my HSA?*
   First Horizon Msaver tracks the total dollar amount spent from your HSA and provides that information to both you and the IRS. You will receive a monthly statement similar to a regular checking account showing average balance, closing balance and any debits or credits to the account. You also have online access to your account. Each year you will receive a 1099-SA and a 5498-SA statement to assist you with income tax filling. **Keep copies of your medical receipts to verify how you use your funds. You are responsible to the IRS for all types of withdrawals made from your HSA.**

4. *Why is it important to keep my receipts?*
   **You** are responsible for documenting how you use your HSA. You can use your HSA money to pay for any "qualified medical expense" permitted under federal tax law that you incur after you open your HSA. First Horizon Msaver reports HSA distributions to the IRS.

   Qualified medical expenses are defined in section 213(d) of the Internal Revenue Code and a list of qualified expenses is available on the IRS website, www.irs.gov, Publication 502.

   You need to understand what the allowable expenses are and be able to back up your claims with receipts. You can wait as long as you want after the expense has incurred to submit it to your HSA. However, no matter how old the expense is, you have to be prepared to document it fully in the year you claim it.

   **You are required to pay taxes on and face a 10% tax penalty (if you spend the money before you turn age 65) if you use any HSA money for purposes other than to pay for "qualified medical expenses".**

5. *What happens to my HSA if I die?*
   If your spouse becomes the owner of your HSA, your spouse can use it as if it were his/her own HSA. If you are not married, the account will no longer be treated as an HSA upon your death. The account will pass to your beneficiary or become part of your estate (and be subject to any applicable taxes). You can designate a beneficiary for your HSA through First Horizon Msaver.

6. *Where can I get more information about HSAs?*
   Call the First Horizon Msaver Customer Care Center at 1-888-355-6124 or visit www.firsthorizonmsaver.com/tva. The Care Center and web site are available 24 hours a day, seven days a week. Questions can be directed to a customer service representative or submitted through the web site.

   The Department of Treasury web site, www.treas.gov, has additional information about HSAs, including related IRS forms, publications, and links to other web sites.

**New Hires**

1. *If I am a new hire (i.e., just hired during 2009) and I enrolled in the CDHP, when can I begin contributing to my HSA? And, how much can I contribute?*
   Both you and TVA are eligible to contribute to the HSA beginning the first of the following month that you are hired provided that you have opened the account. You can make the maximum HSA contribution for the year including the catch-up contribution, if applicable. If a contribution is made you must remain in the CDHP for what the IRS deems a testing period in order for the contribution to receive favorable tax treatment. The testing period as defined by the IRS begins with the month in which the first contribution is made and ends on the last day of the 12th month following that month. If you do not remain in the CDHP for the testing period the contributions made to the HSA will be considered taxable and be subject to a 10% tax penalty.